

Review of CMS's estimate of the 2006 payment update for physician services

ISSUE: CMS has an annual requirement to use a statutory formula and calculate a preliminary estimate of the next payment update for physician services and to send the estimate to MedPAC. MedPAC must then include a review of the estimate in our June report to the Congress. For 2006, CMS's estimate is an update of -4.3 percent. In sending us this estimate, CMS raises a second issue: rapid one-year 15.2 percent growth in spending for physician services in 2004. CMS's preliminary analysis shows that the vast majority of this growth is due to an increase in the volume of certain services—office visits, minor procedures, imaging, laboratory and other tests, and drugs administered in physician offices.

KEY POINTS: In calculating the update, CMS used estimates which are consistent with recent trends. The one exception is a projected 2.5 percent drop in enrollment in fee-for-service Medicare in 2006, which assumes a shift in enrollment from fee-for-service to Medicare Advantage. Even if this shift does not occur, however, the update is unlikely to change given the cumulative growth in spending for physician services that is included in the update calculation.

The rapid growth in spending in 2004 may argue for fundamental change, including changes in the way Medicare pays for physician services. MedPAC has recommended pay for performance for physicians and other providers, measuring physician use of resources, reform of the payment update for physician services, and managing use of imaging services. More recommendations may come from work we have planned on laboratory services and physical therapy. Other issues concern the physician fee schedule and possible mispricing of services, which could have an effect on the volume of services.

ACTION: At this meeting, Commissioners will discuss a draft of MedPAC's review of CMS's preliminary estimate. Staff will then revise the draft so it can be part of the report we submit to the Congress in June.

STAFF CONTACT: Kevin Hayes (202-220-3716)